

Comments for the Record
House Committee on Ways and Means
Subcommittee on Select Revenue Measures
Hearing on Framework for Evaluating Certain Expiring Tax Provisions

Friday, June 8, 2012, 9:30 AM

By Michael G. Bindner

Center for Fiscal Equity

Chairman Tiberi and Ranking Member Neal, thank you for the opportunity to submit these comments for the record to the House Ways and Means Committee Subcommittee on Select Revenue Measures.

As always, our comments are in the context of our proposed comprehensive tax reform. As you know, the Center for Fiscal Equity proposal includes four major provisions:

- A Value Added Tax (VAT) to fund domestic military spending and domestic discretionary spending with a rate between 10% and 13%, which makes sure that every American family pays something.
- Personal income surtaxes on joint and widowed filers with net annual incomes of \$100,000 and single filers earning \$50,000 per year to fund net interest payments, debt retirement and overseas and strategic military spending and other international spending, with graduated rates between 5% and 25% in either 5% or 10% increments. Heirs would also pay taxes on distributions from estates, but not the assets themselves, with distributions from sales to a qualified ESOP continuing to be exempt.
- Employee contributions to Old Age and Survivors Insurance (OASI) with a lower income cap, which allows for lower payment levels to wealthier retirees without making bend points more progressive.
- A VAT-like Net Business Receipts Tax (NBRT), which is essentially a subtraction VAT with additional tax expenditures for family support, health care and the private delivery of governmental services, to fund entitlement spending and replace income tax filing for most people (including people who file without paying), the corporate income tax, business tax filing through individual income taxes and the employer contribution to OASI, all payroll taxes for hospital insurance, disability insurance, unemployment insurance and survivors under age 60.

While the call for comments excludes transportation trust fund taxes from the mix of taxes considered under these comments, we find that our analysis of such taxes provides a very useful criterion in judging the appropriateness of targeted taxes. In our testimony on the issue of energy (and by definition, transportation) tax issues, we laid out the principle that if the tax provision led to a general increase in a broad based tax paid by employers in other industries, then the tax break was inappropriate.

For example, if energy companies received a credit that was applicable to them, rather than to all businesses, then it would be wrong to maintain such a credit. If, on the other hand, all firms could utilize the same credit in principle, then it should be allowed. This is true in both a corporate income tax system and the more general VAT-like Net Business Receipts Tax we suggest as part of our comprehensive plan for tax reform.

To the extent to which tax reform eliminates a specific tax and the related subsidy and replaces it with reforms such as the Net Business Receipts Tax (which taxes both labor and profit), tax extenders are problematic, but not impossible to preserve.

This is one of the virtues of a separate Net Business Receipts Tax, rather than replacing the Corporate Income Tax with a VAT or a Fair Tax – which by their nature have no offsetting tax expenditures. The challenge arises, however, when the existence of tax subsidies carry with them the very justified impression that less well connected industries must pay higher taxes in order to preserve these tax subsidies. Worse is the perception, which would arise with their use in a business receipts tax, that such subsidies effectively result in lower wages across the economy. Such a perception, which has some basis in reality, would be certain death for any subsidy.

One must look deeper into the nature of these activities to determine whether a subsidy is justified, or even possible. If subsidized activities are purchased from another firm, the nature of both a VAT and an NBRT alleviate the need for any subsidy at all, because the VAT paid implicit in the fees for research and exploration would simply be passed through to the next level on the supply chain and would be considered outside expenditures for NBRT calculation and therefore not taxable. If research and exploration is conducted in house, then the labor component of these activities would be taxed under both the VAT and the NBRT, as they are currently taxed under personal income and payroll taxes now.

The only real issue is whether the profits or losses from these activities receive special tax treatment. Because profit and loss are not separately calculated under such taxes, which are essentially consumption taxes, the answer must be no. The ability to socialize losses and privatize profits through the NBRT would cease to exist with the tax it is replacing.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

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